

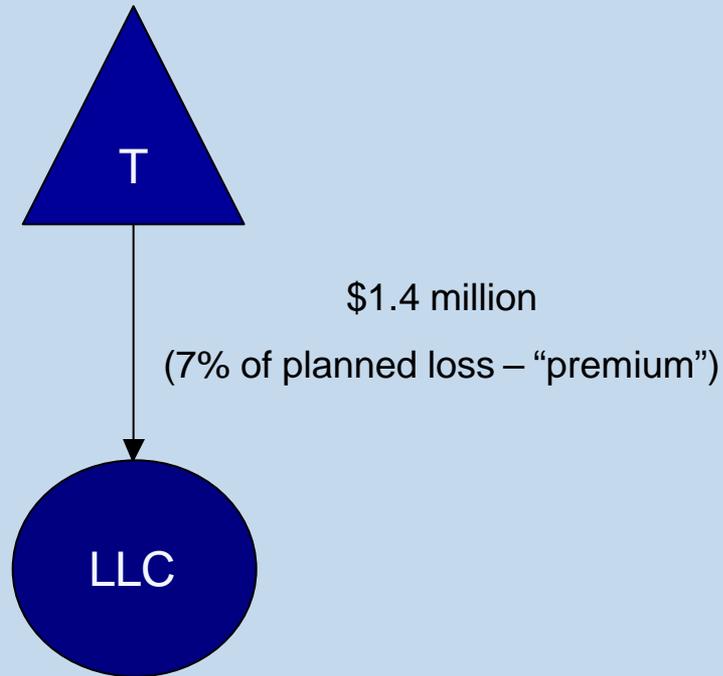
BLIPS

Bond Linked Issue Premium Structure

Prepared by U.S. Senate Permanent
Subcommittee on Investigations,
Subcommittee Staff of Senator Carl Levin,
November 2003

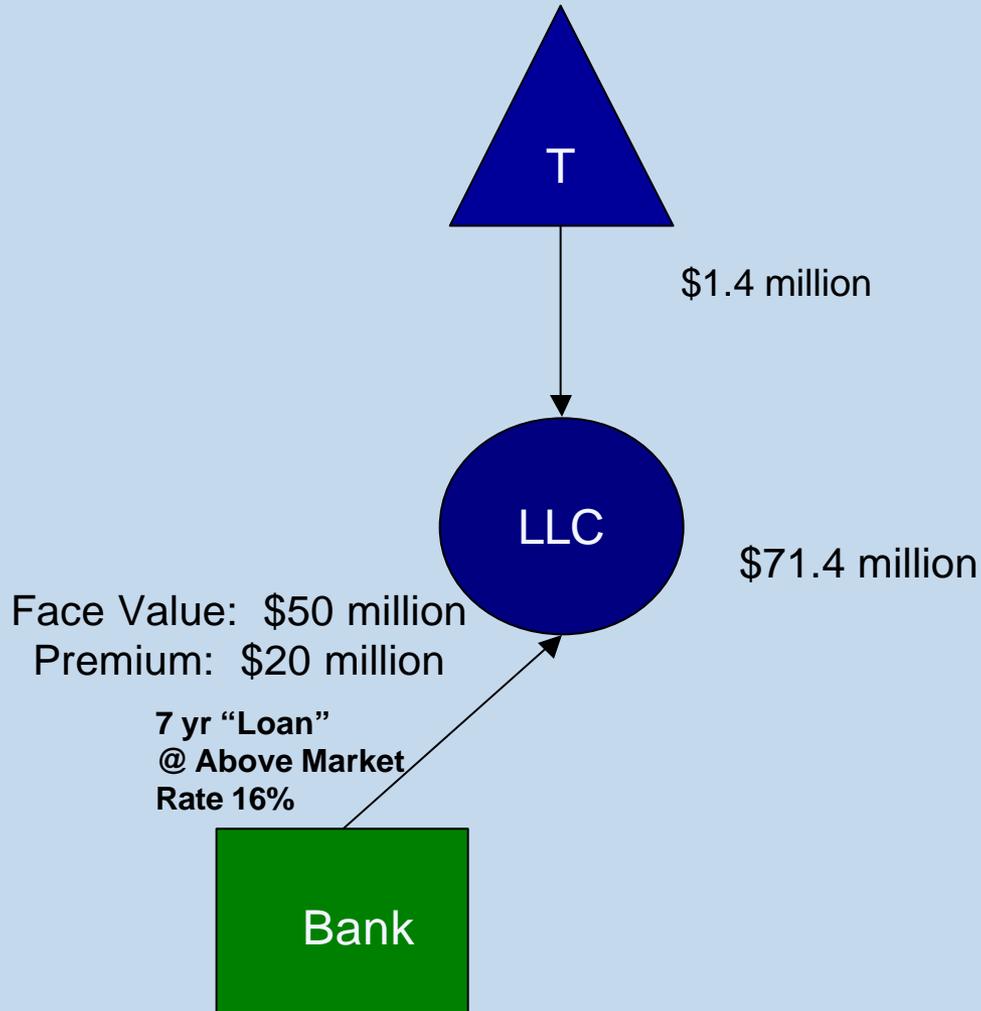
Embargoed
Until Monday, November 17, 2003

Taxpayer Transfers Funds to Shell Corp. (LLC)

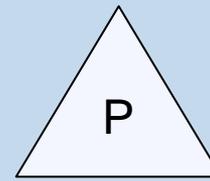


Bank “Loan” To LLC

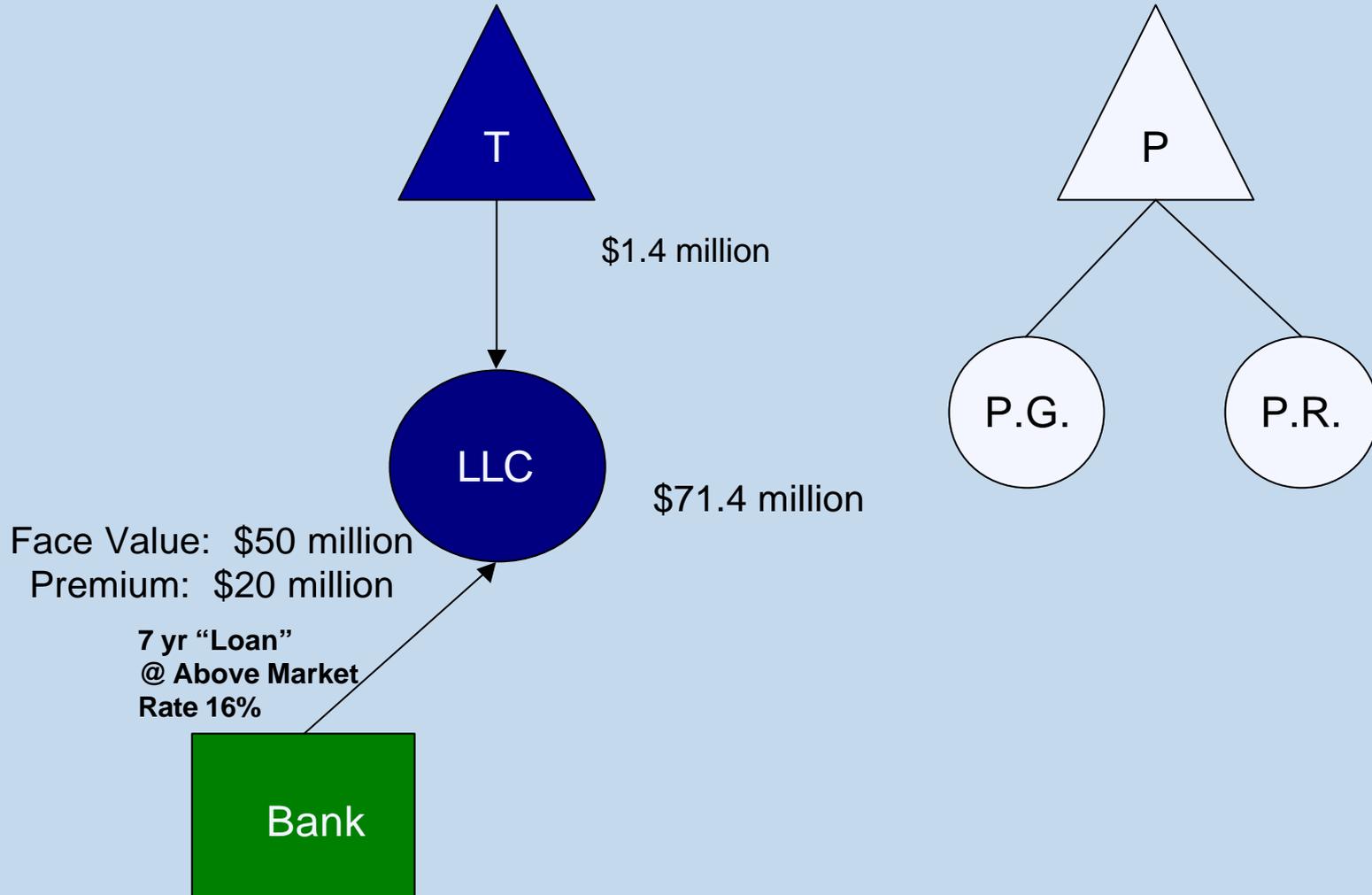
(Collateralized by US Dollars or Euros)



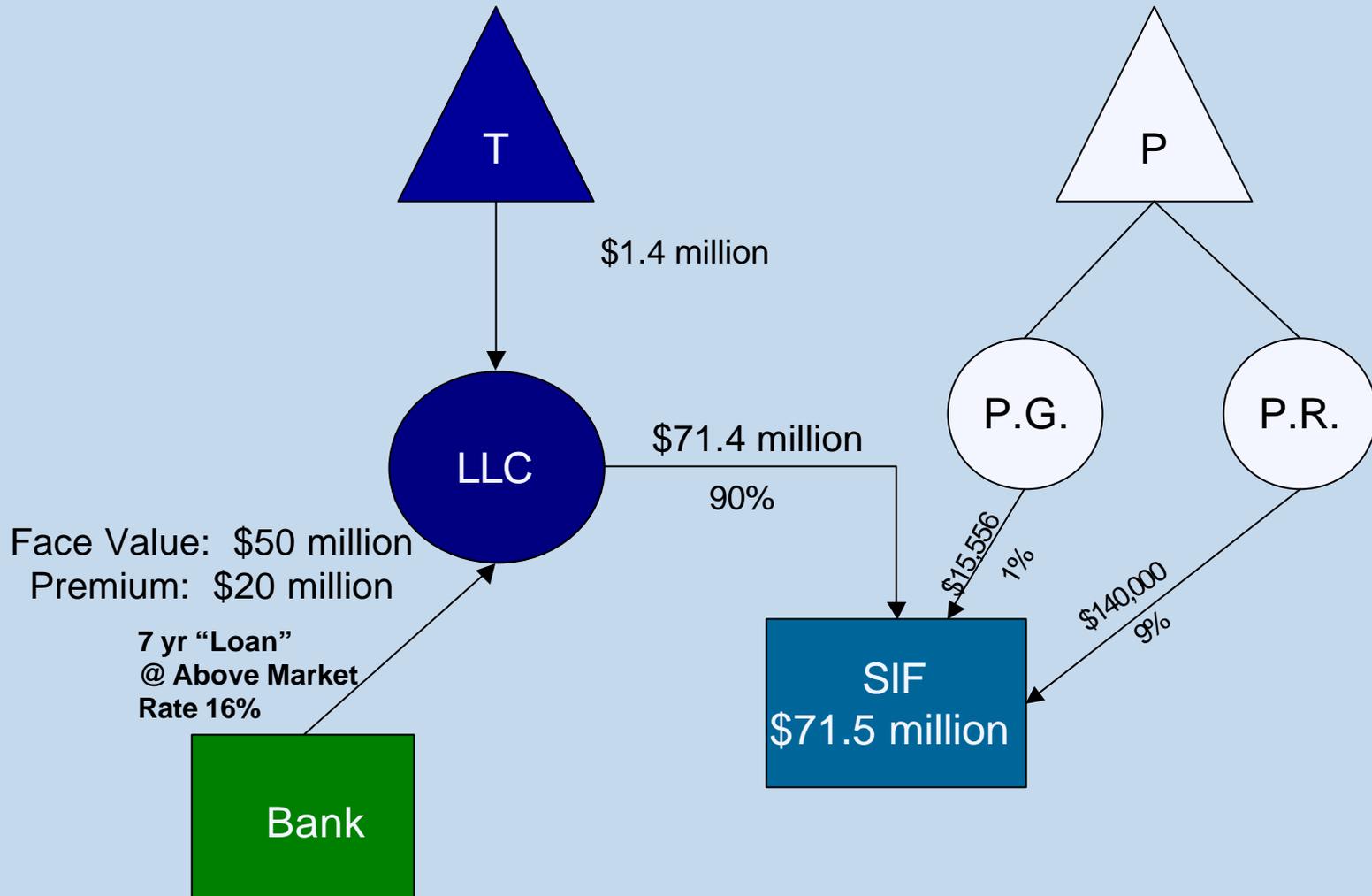
Presidio



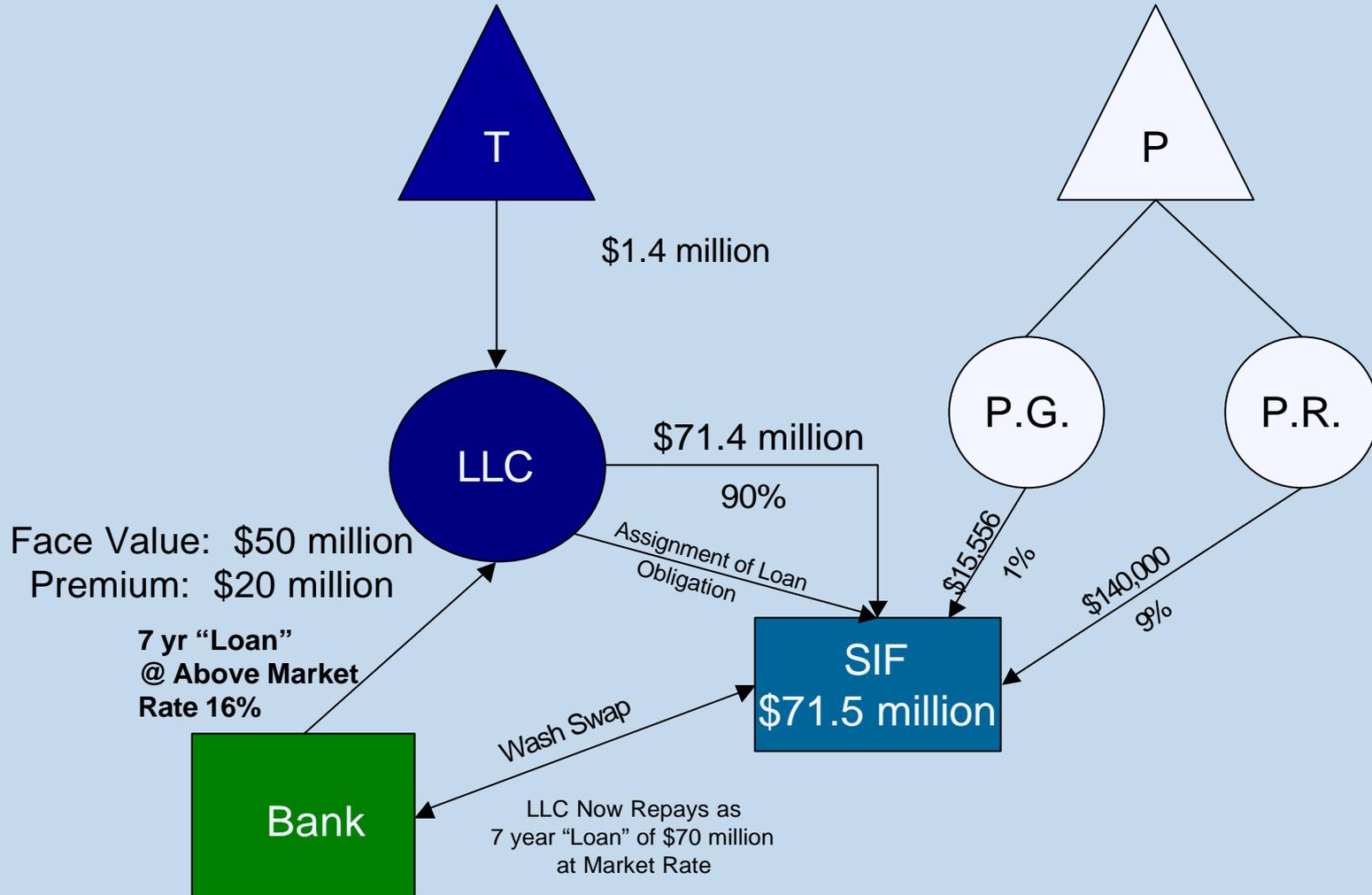
Co-Designer and Implementor of Shelter



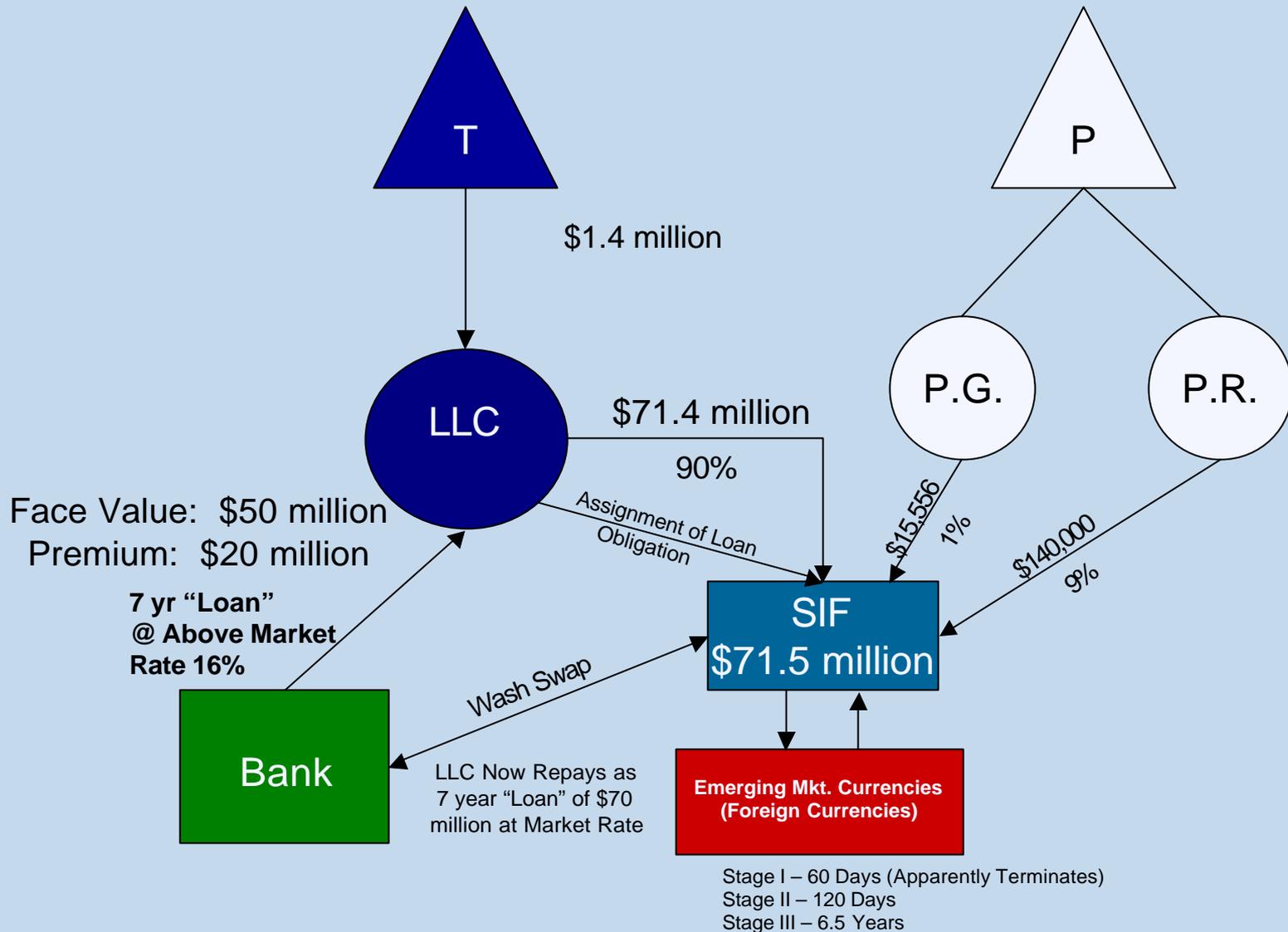
Creation of Strategic Investment Fund



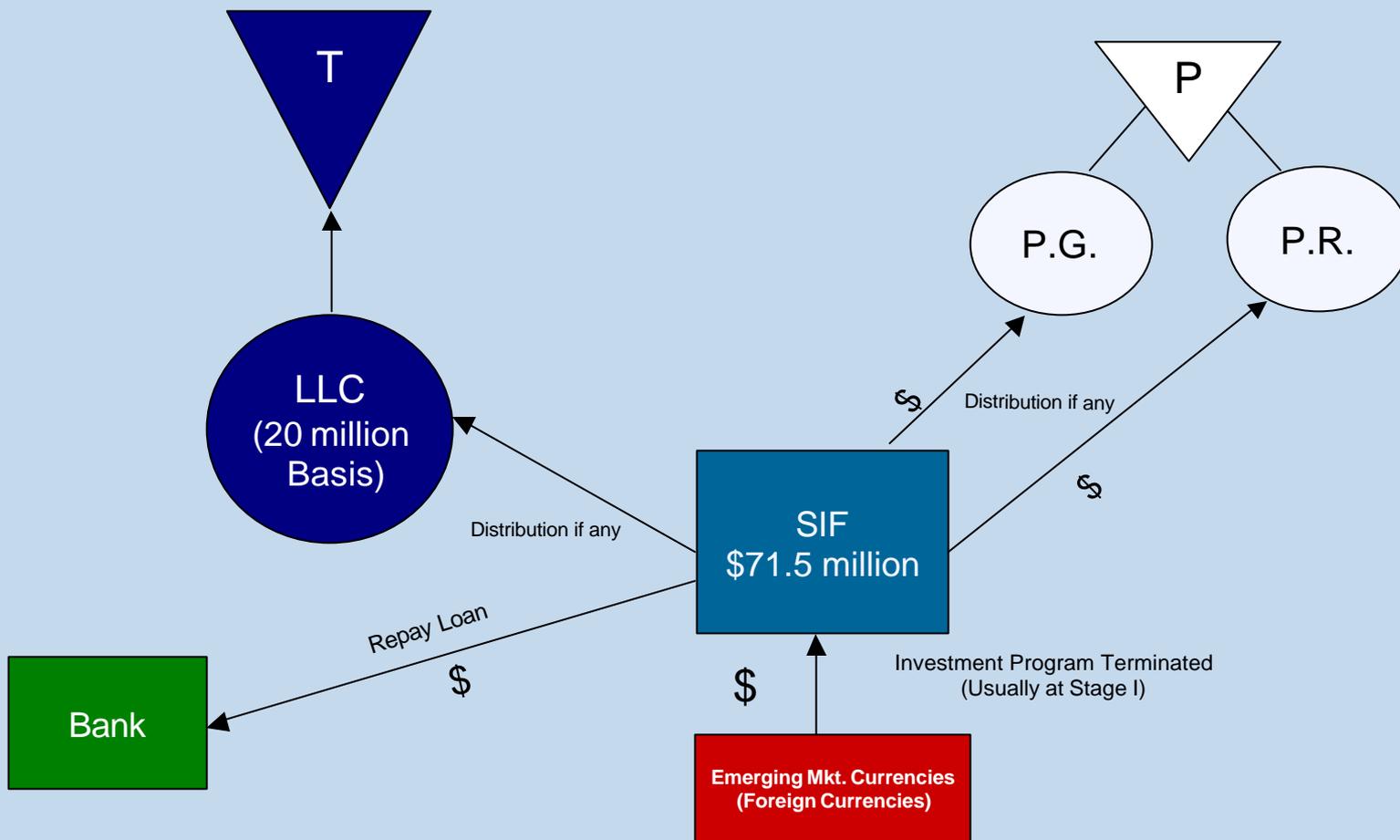
“Loan” Assumption and Interest Rate Wash “Swap”



Investment "Scheme"



Unwind/Termination



Stage I – 60 Days (Apparently Terminates)

Stage II – 120 Days

Stage III – 6.5 Years

Taxpayer Claimed Loss: \$20 million basis (equal to premium) plus capital contribution (\$1.4 million) plus or minus any loss or gain from sale of assets

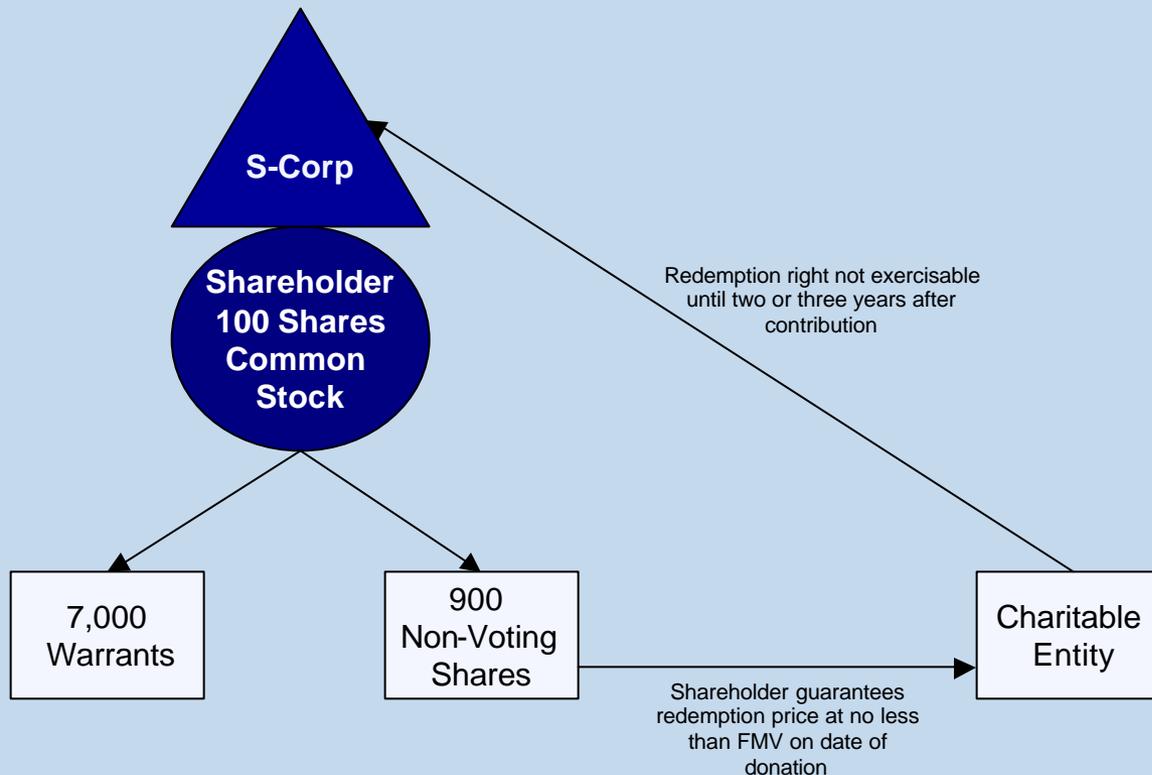
SC²

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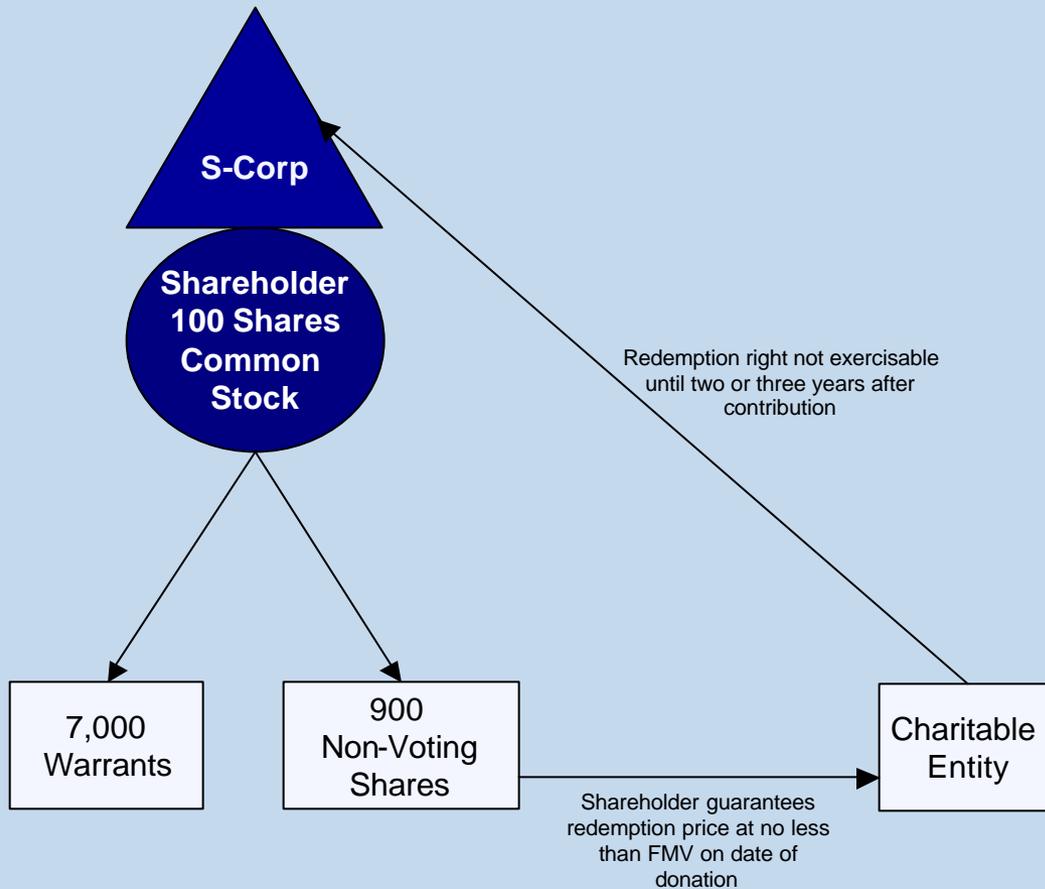
Step 1

S-Corp. Creates and Transfers to the Shareholder an Additional
900 Voting Shares and 7,000 Warrants
Shareholder “Donates” Non-Voting Stock to a Charitable Entity



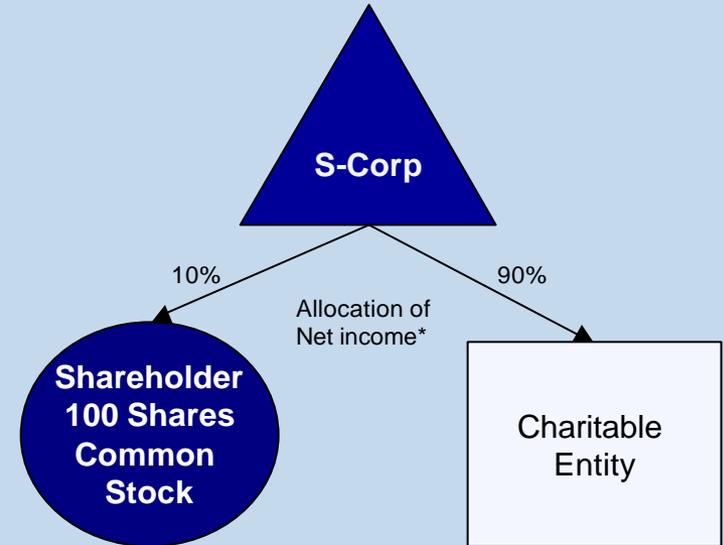
Step 1

S-Corp. Creates and Transfers to the Shareholder an Additional 900 Voting Shares and 7,000 Warrants
Shareholder "Donates" Non-Voting Stock to a Charitable Entity



Step 2

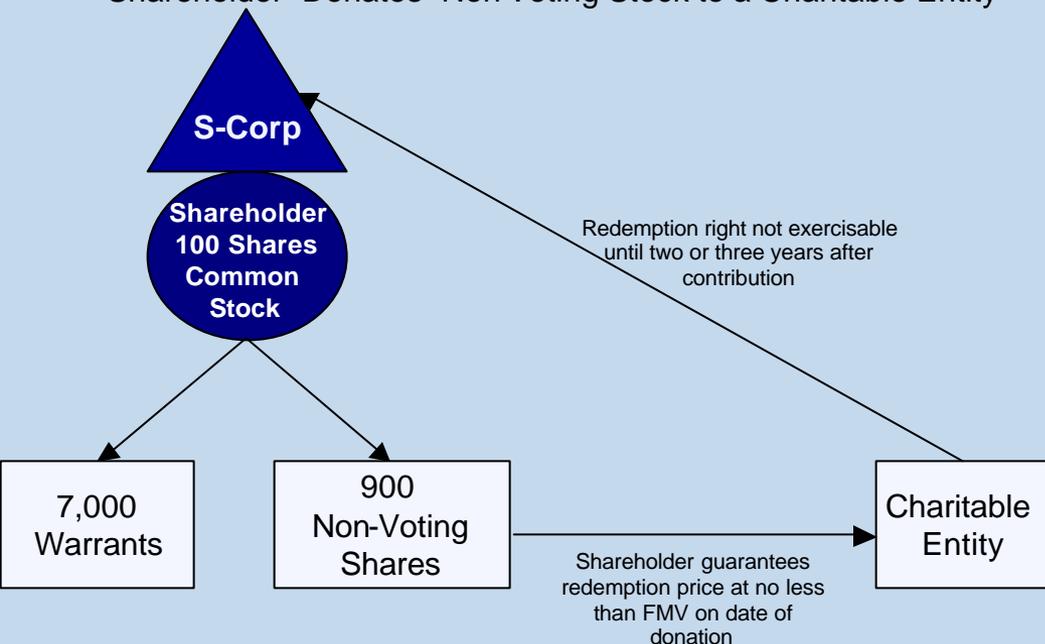
2-3 Year Period When Charity is Shareholder in S-Corporation



***Net income is allocated on a pro rata basis for tax purposes, but the distribution is suspended or limited as a result of amendments to S-Corp. Articles and By-laws.**

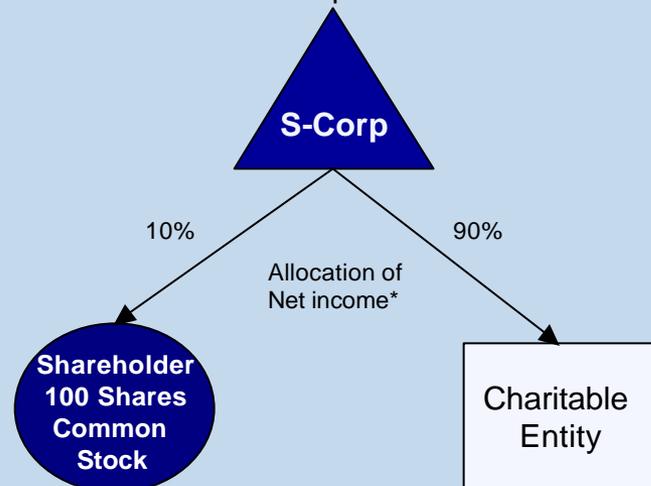
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Step 2

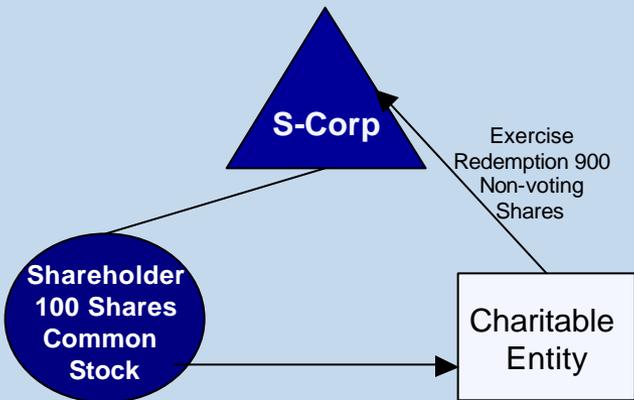
2-3 Year Period When Charity is Shareholder in S-Corporation



*Net income is allocated on a pro rata basis for tax purposes, but the distribution is suspended or limited as a result of amendments to S-Corp. Articles and By-laws.

Step 3

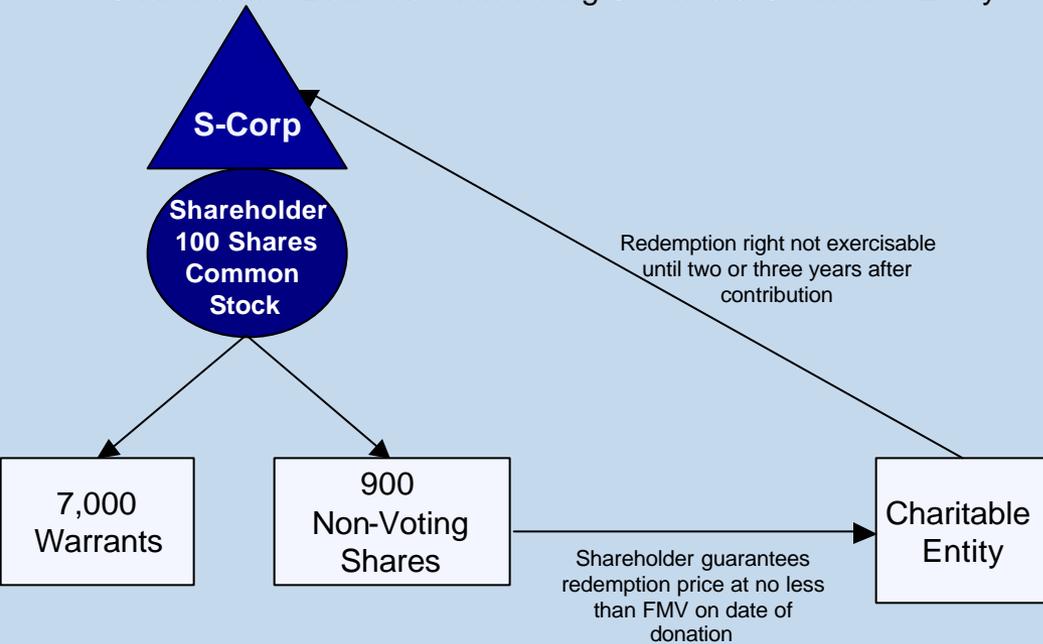
Redemption



The Greater of FMV at Contribution or FMV at Redemption

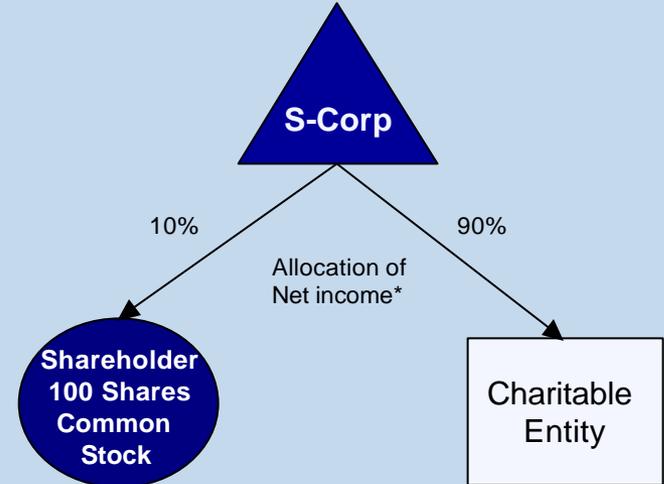
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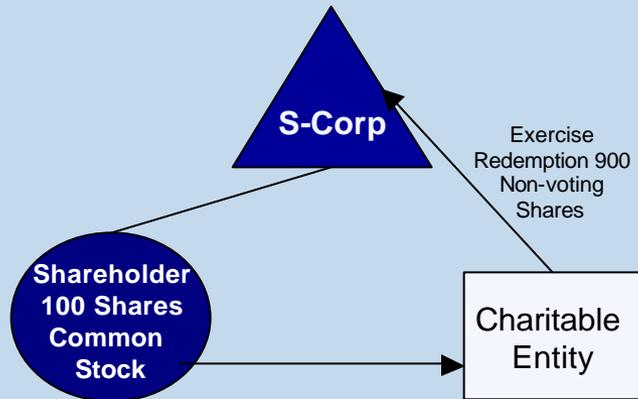
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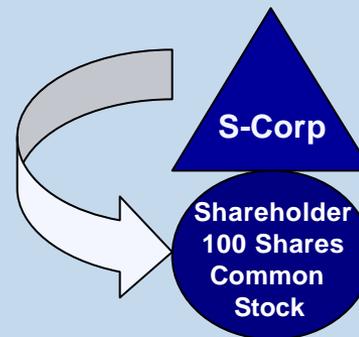
Redemption



The Greater of FMV at Contribution or FMV at Redemption

Step 4

Distributions Reinstated



Distribution of income built up in corp. for 2-3 years (income taxed at preferential capital gains rate rather than ordinary income)